



JOHN NAIMO
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-3873
PHONE: (213) 974-8301 FAX: (213) 626-5427

March 10, 2016

TO: Supervisor Hilda L. Solis, Chair
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: John Naimo 
Auditor-Controller

**SUBJECT: PUBLIC SAFETY REALIGNMENT ACT (AB109) REVIEW – LOWER
RISK DEPARTMENTS – FISCAL YEAR 2014-15**

In October 2013, your Board directed the Chief Executive Office to develop a schedule of recommended audits (Attachment III) for all departments that receive Public Safety Realignment Act (AB109) expenditure reimbursements. Our attached audit schedule identifies seven departments as lower risk: Department of Health Services (DHS), Department of Public Health (DPH), District Attorney (DA), Public Defender (PD), Alternate Public Defender (APD), Fire Department (Fire), and the Executive Office of the Board of Supervisors (Executive Office). On September 29, 2014, we issued our first Fire AB109 review report, and on February 13, 2015, we issued our first AB109 review report for the other six lower risk departments covering a sample of Fiscal Year (FY) 2013-14 expenditures.

For this second audit, our report compares the AB109 expenditures for each of the seven lower risk departments with their respective budget for FY 2014-15. We reviewed a sample of transactions from the first three quarters of FY 2014-15 to evaluate each department's internal controls over their AB109 fiscal operations.

Based on our review, the departments generally improved their AB109 expenditure reporting from our first audits, and generally spent AB109 funds on AB109 related activities in FY 2014-15. In addition, the DA, Fire, and APD reported their costs accurately. However, we did note a few relatively minor areas for improvement for PD, DPH, DHS, and the Executive Office. Specifically:

- Two of the seven departments (DPH and Executive Office) did not accurately report overhead costs. Specifically, the departments applied overhead to both salaries and employee benefits instead of salaries only as required. As a result, DPH and the Executive Office over-reported overhead by \$54,000 and \$33,000, respectively.
- One of the seven departments (PD) did not accurately report their Services and Supplies expenditures. Specifically, PD reported full office space costs (e.g., flooring, furniture, etc.) for an office that is occupied by both AB109 and non-AB109 related units. Based on PD's estimates of the office usage by the two units, PD over-reported office space costs by approximately \$80,000.

Details of these and other findings are included in Attachment I.

We discussed the results of our review with management from each of the seven departments. All seven departments indicated general agreement with our findings. They also indicated that they have or will take immediate action to address/correct the issues identified, and will ensure the accuracy of their future AB109 claimed costs.

We thank the departments' management and staff for their cooperation and assistance during our review. If you have any questions, please call me, or your staff may contact Robert Smythe at (213) 253-0100.

JN:AB:PH:RS:MP

Attachments

c: Sachi A. Hamai, Chief Executive Officer
Jim Jones, Chief Operating Officer, Chief Executive Office
Mitchell H. Katz, M.D., Director, Los Angeles County Health Agency
Cynthia A. Harding, M.P.H., Interim Director, Department of Public Health
Jeffrey Gunzenhauser, M.D., M.P.H., Interim Health Officer, Department of Public Health
Jackie Lacey, District Attorney
Ronald L. Brown, Public Defender
Janice Y Fukai, Alternate Public Defender
Daryl L. Osby, Fire Chief
Lori Glasgow, Executive Officer, Board of Supervisors
Public Information Office
Audit Committee

**LOWER RISK DEPARTMENTS
PUBLIC SAFETY REALIGNMENT ACT (AB109) REVIEW
FISCAL YEAR 2014-15**

Background and Scope

The State establishes an annual amount of Public Safety Realignment Act (AB109 or Program) funding to the County. The County is required to use the Program's funding for services directed toward designated incarcerated individuals and post-prison release populations, such as certain categories of State parolees. AB109 transferred community reintegration and supervision responsibility for these parolees from the State to the County. The State provides funding on a monthly basis to the Auditor-Controller (A-C) who holds these funds in trust, and the Chief Executive Office (CEO) establishes annual AB109 funding budgets in consultation with each department, subject to Board of Supervisors' (Board) approval.

The CEO and A-C require departments to submit expenditure claims with their AB109 costs (i.e., salaries, employee benefits, applicable overhead rates, etc.) on a quarterly basis. The CEO and A-C then reimburse each department from the trust account up to their budget. Departments must use general County funding for expenditures that exceed their annual AB109 funding budget unless the Board approves the use of AB109 reserves. In addition, any unused AB109 funds are retained in the trust account for future AB109 use.

In October 2013, the Board directed the CEO to develop a schedule of recommended audits for all departments that receive AB109 expenditure reimbursements. Our attached audit schedule (Attachment III) identifies seven departments as lower risk: Department of Health Services (DHS), Department of Public Health (DPH), District Attorney (DA), Public Defender (PD), Alternate Public Defender (APD), Fire Department (Fire), and the Executive Office of the Board (Executive Office). We issued our first Fire AB109 review on September 29, 2014, and AB109 review of the other six lower risk departments on February 13, 2015, covering a sample of Fiscal Year (FY) 2013-14 expenditures.

For this second audit, our report compares the AB109 expenditures for each of the seven lower risk departments with their respective budget for FY 2014-15. We reviewed a sample of transactions from the first three quarters of FY 2014-15 to ensure they were reported accurately, completely, and were for AB109 activities/functions. We also evaluated the adequacy of their internal controls.

AB109 Funding and Cost Reporting

The California State Association of Counties (CSAC) determines the annual amount of AB109 funds allocated to each county based on negotiations between the CEO, representatives from other counties, and CSAC. The CEO then works with each department impacted by AB109 to recommend their annual budgets. The State

provides funding on a monthly basis to the A-C, who holds these funds in trust until departments claim and receive their reimbursements. For FY 2014-15, the total AB109 budget for the seven departments was approximately \$48 million.

While reimbursements are limited to each department's AB109 budget, departments should report their actual costs regardless of the amount reimbursed. As detailed in Attachment II, the reported cost for the seven departments for FY 2014-15 was approximately \$32 million, resulting in budget savings totaling approximately \$16 million.

The budget savings primarily occurred in DHS (\$6.1 million) and DPH (\$6.1 million). DHS management indicated that their expenditures were lower than anticipated since the inmate population declined due to the passing of Proposition 47 in November 2014, which reduced the sentences for certain drug-related crimes. DPH management indicated that their expenditures were lower than anticipated due to a delay in implementing their Substance Treatment and Re-entry Transition Program.

Summary

Based on our testwork, the departments generally implemented our recommendations from the previous audits, and spent AB109 funds on AB109 related activities. In addition, the DA, Fire, and APD reported their costs accurately.

We did note a few relatively minor issues with PD, DPH, DHS, and the Executive Office. We discuss our findings on these departments' reported costs in detail below.

PD Office Space Costs

Departments may claim Services and Supplies (S&S) costs incurred for AB109, such as office supplies, furniture, etc. For July 2014 through March 2015, PD reported approximately \$233,000 in AB109 S&S.

We reviewed all of PD's reported S&S and noted that they reported full office space costs (e.g., flooring, furniture, etc.) for an office that is occupied by both the Realignment Unit (the unit that works with the AB109 population) and another non-AB109 related unit. Based on PD's estimates of the office usage by the two units, they over-reported office space costs by approximately \$80,000.

PD management indicated that they will submit a claim adjustment for the over-reported costs.

Overhead Costs

The CEO and A-C require departments to claim applicable overhead costs. In our previous report, we noted that DPH and the Executive Office did not claim overhead costs.

During this review, we noted that while DPH and the Executive Office now claim overhead costs, they applied overhead to both salaries and employee benefits (EB) instead of only salaries as required. As a result, DPH and the Executive Office over-reported costs by \$54,000 and \$33,000, respectively.

DPH and Executive Office management indicated that they will submit a claim adjustment for the over-reported costs, and ensure staff apply overhead to only salaries in the future.

PD Employee Benefits Costs

The CEO and A-C require departments to claim EB costs that are identifiable to AB109. During our review, we noted that PD did not use the A-C approved EB rate. As a result, PD under reported EB costs by \$39,400 for July 2014 through March 2015.

PD management indicated that they will ensure staff use the A-C approved EB rate in the future.

DHS Parole Violator Service Costs

Prior to AB109, DHS received approximately \$2.9 million annually from the State for providing health care services to parole violators awaiting revocation proceedings. The State no longer provides this funding since parole violators are now the responsibility of the County under AB109.

In our previous report, we noted that DHS claimed one fourth of the \$2.9 million in lost revenue each quarter instead of tracking and reporting actual costs incurred for providing services to parole violators. During this review, we noted that the Department continued this practice.

DHS management indicated that subsequent to our review, they implemented procedures to track actual costs incurred for providing services to parole violators using workload data provided by the Sheriff's Department, and submitted a claim adjustment for July 2014 through March 2015.

Comparison of Lower Risk Departments' Budgeted and Actual AB109 Costs

Department	Approved Budget	July to Sept. 2014 (1)	Oct. to Dec. 2014 (1)	Jan. to March 2015 (1)	April to June 2015 (1)	Total Reported Costs	Amount Overfunded / (Underfunded)	Percent
Alternate Public Defender	\$ 965,000	\$ 189,634	\$ 161,926	\$ 265,484	\$ 387,676	\$ 1,004,720	\$ (39,720)	-4%
District Attorney	\$ 2,899,000	\$ 810,191	\$ 753,998	\$ 748,489	\$ 830,859	\$ 3,143,537	\$ (244,537)	-8%
Executive Office	\$ 4,172,000	\$ 234,748	\$ 233,442	\$ 350,780	\$ 403,583	\$ 1,222,553	\$ 2,949,447	71%
Fire	\$ 5,045,000	\$ 75,227	\$ 1,609,352	\$ 1,043,672	\$ 1,177,409	\$ 3,905,660	\$ 1,139,340	23%
Health Services	\$ 16,277,000	\$ 2,890,897	\$ 2,941,750	\$ 2,101,230	\$ 2,201,397	\$ 10,135,274	\$ 6,141,726	38%
Public Defender	\$ 2,185,000	\$ 570,927	\$ 518,968	\$ 547,994	\$ 636,777	\$ 2,274,666	\$ (89,666)	-4%
Public Health	\$ 16,428,000	\$ 1,811,721	\$ 2,419,812	\$ 2,918,709	\$ 3,177,379	\$ 10,327,621	\$ 6,100,379	37%
Total Lower Risk	\$ 47,971,000	\$ 6,583,345	\$ 8,639,248	\$ 7,976,358	\$ 8,815,080	\$ 32,014,031	\$ 15,956,969	33%

(1) Reported costs are based on the reimbursement claims submitted by the departments and approved by the Chief Executive Office.



WILLIAM T FUJIOKA
Chief Executive Officer

County of Los Angeles
CHIEF EXECUTIVE OFFICE

Kenneth Hahn Hall of Administration
500 West Temple Street, Room 713, Los Angeles, California 90012
(213) 974-1101
<http://ceo.lacounty.gov>

February 25, 2014

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

A handwritten signature in blue ink, appearing to read "W. T. Fujioka".

Board of Supervisors
GLORIA MOLINA
First District

MARK RIDLEY-THOMAS
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

**PUBLIC SAFETY REALIGNMENT: FIRST QUARTERLY REPORT ON BUDGET
AND PROGRAM PERFORMANCE MEASURES (ITEM 94-B, AGENDA OF
OCTOBER 8, 2013)**

On October 8, 2013, the Board of Supervisors directed the Chief Executive Officer to initiate quarterly budget and performance reports for the Public Safety Realignment Act (AB109), including:

- a) A summary of revenue and expenditures;
- b) Narratives to explain the variances between expenditures and budget;
- c) A comprehensive list of items that have been funded with one-time revenue, but require ongoing funding commitments; and
- d) Updates on programmatic priorities and achievements of stated outcomes.

In addition, the Board requested the development of a fiscal audit schedule and options to evaluate the AB109 programs and services delivered by County departments and community-based organizations.

REVENUE AND EXPENDITURES

The State's Fiscal Year (FY) 2013-14 Budget allocated \$338,130,000 to the County for AB109 programs and services. As of January 31, 2014, the County has received \$156,968,000 or 46 percent of the budget allocation.

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The Auditor-Controller (A-C) established trust accounts specifically for the remittance of AB109 funds from the State. Although funds are allocated to County departments, these funds remain in the trust accounts and are not distributed to the departments until the Chief Executive Office (CEO) and A-C approve quarterly claims for reimbursement of AB109 related costs. Claims are submitted during the month following the close of each quarter. Given the State's AB109 remittance schedule runs from a September through August calendar, compared to the County's fiscal calendar, a cap has been placed on the quarterly claims for cash-flow purposes. Any claims exceeding the quarterly cap will need to be absorbed by the department until the end of the FY; whereupon, any unreimbursed claims will be reconciled up to each department's annual AB109 budget allocation. Should a department's AB109 claims result in a fiscal year-end deficit, the CEO may recommend the Board utilize any remaining allocations from other departments or tap into the AB109 Reserve to make the department whole; otherwise, the department will absorb those AB109 costs within its regular budget.

For FY 2013-14 County departments have been reimbursed \$136,420,000 or 40 percent of the budget for AB109 claims submitted through January 31, 2014 (Attachment I). The second quarter claims for several departments are still pending CEO and A-C review prior to disbursement.

As reflected in Attachment I, the Probation Department (Probation) and Sheriff's Department (Sheriff) have exceeded their respective quarterly caps by a combined \$8,094,000. We anticipate Probation and Sheriff will end the FY with AB109 deficits; however, there may be savings in the other departments that may be used to mitigate AB109's impact on their regular budget.

PROGRAM DIRECTORY AND PERFORMANCE MEASURES

A comprehensive directory of AB109 programs, funded with ongoing and one-time funds, has been developed to report on each department's quarterly expenditures and progress toward meeting stated annual performance targets. The current quarterly report reflects the department's performance status as of January 1, 2014, and the first quarter reimbursed claims (Attachment II).

FISCAL AUDIT SCHEDULE

The A-C has concluded a preliminary review of each department, including interviewing department managers and staff and reviewing expenditure reports, claims, and supporting documentation. The A-C subsequently developed a list of five factors to evaluate the risk presented by each department: 1) the amount of budgeted AB109

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funding; 2) each department's internal controls and methodology for tracking and reporting expenditures; 3) the type of service provided; 4) the materiality of prior audit findings; and 5) the types of AB109 related expenditures incurred by each department.

Based on these audit factors, the A-C proposes the following fiscal audit schedule:

<u>FY 2013-14</u>	
January to March 2014	April to Jun 2014
Relative High Risk Departments: <ul style="list-style-type: none"> • Mental Health • Probation • Sheriff 	Relative Lower Risk Departments: <ul style="list-style-type: none"> • Alternative Public Defender • District Attorney • Executive Office of the Board (CCJCC and ISAB) • Fire • Health Services • Public Defender • Public Health
<u>FY 2014-15*</u>	
Quarterly Audits	Annual Audit
<ul style="list-style-type: none"> • Mental Health • Probation • Sheriff 	<ul style="list-style-type: none"> • Alternative Public Defender • District Attorney • Executive Office of the Board • Fire • Health Services • Public Defender • Public Health

* The audit schedule for each department is subject to FY 2013-14 audit findings.

INDEPENDENT PROGRAM EVALUATIONS

The Countywide Criminal Justice Coordinating Committee (CCJCC), in consultation with the CEO, is developing a Request for Statement of Qualifications (RFSQ) for criminal justice research and evaluation services. The RFSQ will be used to establish a Master Agreement list of vendors to provide independent expert consultant services. The Master Agreement list will be made available to all County departments and partner agencies to evaluate both AB109 programs and other criminal justice related programs.

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We had anticipated presenting the Master Agreement for Board approval in February 2014; however, some complications were encountered as to how departments would administratively access a CCJCC Master Agreement. These contract oversight issues are currently under review by the A-C and County Counsel. We will keep your Board apprised as we make progress toward releasing the RFSQ.

Should you have any questions, please have a member of your staff contact either Georgia Mattera, Public Safety, at (213) 893-2374 or David Turla, Public Safety, at (213) 974-1178.

WTF:GAM:SW
DT:llm

c: Executive Office, Board of Supervisors
County Counsel
District Attorney
Sheriff
Alternate Public Defender
Auditor-Controller
Fire
Health Services
Mental Health
Public Defender
Public Health
Probation

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